

Message Text

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ACTION ARA-10

INFO OCT-01 EUR-12 EA-07 NEA-10 ISO-00 ERDA-05 AID-05
CEA-01 CIAE-00 COME-00 DODE-00 EB-08 FEAE-00
FPC-01 H-01 INR-07 INT-05 L-03 NSAE-00 NSC-05
OMB-01 PM-04 USIA-06 OES-06 SP-02 SS-15 STR-04
TRSE-00 ACDA-07 AGRE-00 PRS-01 PA-01 XMB-02 /130 W
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R 221410Z APR 77
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 1206
INFO AMEMBASSY TEHRAN
AMEMBASSY MEXICO
AMEMBASSY MOSCOW
AMEMBASSY QUITO
AMEMBASSY JAKARTA
AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

C O N F I D E N T I A L SECTION 1 OF 2 BRASILIA 3188

E.O. 11652: GDS
TAGS: ENRG, ETRD, EFIN, OPEC, BR, IR, MX, UR, EC, ID
SUBJ: BRAZILIAN ATTEMPTS TO DIVERSIFY SOURCES OF OIL IMPORTS AND
OFFSET OIL COSTS THROUGH EXPANDED EXPORTS TO NON-TRADITIONAL
OIL SUPPLIERS

1. SUMMARY. BEGIN UNCLASSIFIED. THE GOB HAS RENEWED
EFFORTS TO DIVERSIFY ITS SOURCES OF OIL IMPORTS, AS WELL
AS TO INCREASE BRAZILIAN EXPORTS TO THOSE COUNTRIES WHICH
NOW -- OR WILL, UNDER POSSIBLE NEW ARRANGEMENTS -- SUPPLY
CRUDE OIL TO BRAZIL, IRAN, MEXICO, AND THE SOVIET UNION
HAVE RECENTLY BEEN CONTACTED, AND OTHER COUNTRIES,
INCLUDING ECUADOR AND INDONESIA, MAY BE APPROACHED OFFICIALLY
IN THE NEAR FUTURE (THEY HAVE ALREADY BEEN APPROACHED
UNOFFICIALLY). END SUMMARY.

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2. BRAZIL - IRAN. ON APRIL 5 GOB FINANCE MINISTER
SIMONSEN AND MINES AND ENERGY MINISTER UEKI MET IN NEW
YORK WITH THE IRANIAN MINISTER OF ECONOMY AND FINANCE,
USHANG ANSARY, TO CONTINUE THE NEGOTIATIONS COMMENCED
DURING SIMONSEN'S VISIT TO IRAN LAST NOVEMBER, WHICH
ENVISAGE BRAZILIAN PURCHASES OF IRANIAN PETROLEUM
AND IRANIAN PURCHASES OF BRAZILIAN AGRICULTURAL PRO-

DUCTS AND LIGHT MANUFACTURES. IN ITS PRELIMINARY TERMS THE AGREEMENT CALLS FOR US DOLS ONE BILLION OF BRAZILIAN OIL IMPORTS FROM IRAN PER YEAR IN RETURN FOR DOLS 300 - 500 MILLION OF BRAZILIAN EXPORTS TO IRAN. DURING THE RECENT MEETING, THE TWO MINISTERS WERE UNABLE TO NARROW THEIR DIFFERENCE ON THE PRECISE RATIO, WITH ANSARY OFFERING 30 PERCENT AND SIMONSEN HOLDING OUT FOR 50 PERCENT. BOTH PARTIES HOPE TO FIRM UP THE AGREEMENT AT THE NEXT MEETING OF THE BRAZIL-IRANIAN MIXED COMMISSION IN JUNE. IN THE MEAN-TIME PROJECTS AGREED LAST NOVEMBER, SUCH AS THE INSTALLATION OF A SOYBEAN CRUSHING PLANT IN IRAN, WILL PROCEED NORMALLY. ANSARY IS CONCERNED TO AVOID ANY REFERENCE TO A LINK BETWEEN THE SALE OF PETROLEUM AND THE PURCHASE OF BRAZILIAN PRODUCTS, AN ARRANGEMENT PROHIBITED BY OPEC GROUND RULES.

3. IF AN AGREEMENT IS REACHED AT THE JUNE MEETING, BRAZIL MAY PURCHASE APPROXIMATELY US DOLS 300 MILLION OF IRANIAN PETROLEUM THIS YEAR. THE AGREEMENT WOULD GO FULLY INTO EFFECT IN 1978, WITH BRAZIL HOPING TO SELL SOME DOLS 400 IN EXPORTS TO IRAN THAT YEAR. THE AGREEMENT ALSO FORESEES THE POSSIBILITY OF IRANIAN NON-OIL EXPORTS TO BRAZIL AND ANSARY REPORTEDLY HAS ALLUDED TO THE POSSIBILITY OF IRAN RESORTING TO FINANCIAL TRANSACTIONS TO MEET ITS PERCENTAGE IF NECESSARY. BRAZIL'S GLOBAL "PETROLEUM DEFICIT" IN 1978, (WE PRESUME BRAZIL'S OIL IMPORTS LESS ITS EXPORTS TO OIL-EXPORTING COUNTRIES) WOULD

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BE REDUCED BY 10 PERCENT BY THIS AGREEMENT.

4. BRAZIL - MEXICO. ON APRIL 6, THE MEXICAN AMBASSADOR MET WITH PETROBRAS PRESIDENT GENERAL ARAKEN DE OLIVEIRA TO DISCUSS A BILATERAL AGREEMENT UNDER WHICH MEXICO WOULD BUY IRON ORE FROM BRAZIL AND BRAZIL WOULD BUY OIL FROM MEXICO. PRESS REPORTS STATED THAT MEXICO HAD AN EXPORTABLE PETROLEUM SURPLUS OF 153,000 BB/D, EQUAL TO 20 PERCENT OF BRAZIL'S REQUIREMENTS. UNDER THE AGREEMENT BRAZIL WOULD WANT TO USE GOB-OWNED CRUDE CARRIERS TO TRANSPORT THE PRODUCTS.

5. LATER THIS MONTH THE PRESIDENT OF PEMEX WILL VISIT BRAZIL TO DISCUSS A MORE WIDE-RANGING AGREEMENT WITH BRAZIL, WHICH REPORTEDLY MAY INCLUDE THE PURCHASE BY MEXICO OF BRAZILIAN-MANUFACTURED OIL PLATFORMS, TRANSFER OF TECHNOLOGY, AND TRAINING

PROGRAMS FOR PEMEX TECHNICIANS.

6. BRAZIL-SOVIET UNION. ON APRIL 7 UEKI ANNOUNCED THAT BRAZIL WOULD BUY AN INCREASED AMOUNT OF OIL FROM THE SOVIET UNION, WHICH UNDER AN EXISTING CONTRACT SUPPLIES BRAZIL WITH ABOUT 41,000 BB/D, AT AN ANNUAL COST OF US DOLS 200 MILLION. (MOST OF THE RUSSIAN-SUPPLIED OIL ACTUALLY ORIGINATES IN, AND IS SHIPPED FROM, IRAQ.) A SEPARATE CONTRACT, REPORTEDLY SIGNED IN EARLY 1977 BUT NEVER CONFIRMED OFFICIALLY BY PETROBRAS, WILL INCREASE PRESENT SOVIET OIL SHIPMENTS TO BRAZIL BY 25 PERCENT IN 1977. BOTH THIS CONTRACT AND THE ORIGINAL ONE, HOWEVER, ARE APPARENTLY NOT TIED TO ANY RUSSIAN PURCHASES OF BRAZILIAN GOODS. UEKI MAY VISIT MOSCOW IN MAY TO WORK OUT THE DETAILS OF THE NEW CONTRACT. FYI: TOTAL BRAZIL-SOVIET UNION TRADE IN 1976 WAS APPROXIMATELY DUS DOLS 790
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MILLION AND SHOWED A BRAZILIAN SURPLUS OF APPROXIMATELY US DOLS 270 MILLION. END FYI.

7. OTHER COUNTRIES. PRESS STORIES HAVE ALSO LINKED BRAZIL WITH INDONESIA, AN AGREEMENT MIGHT LINK INDONESIAN PURCHASES OF BRAZILIAN IRON ORE TO BRAZILIAN OIL PURCHASES, AND IN THE CASE OF ECUADOR BRAZILIAN EXPORTS UNDER ANY AGREEMENT REACHED PRESUMABLY WOULD CONSIST OF MANUFACTURED GOODS. END UNCLASSIFIED

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C O N F I D E N T I A L SECTION 2 OF 2 BRASILIA 3188

8. BEGIN CONFIDENTIAL - COMMENT - IRAN AND MEXICO ARE THE MOST LIKELY PROSPECTS FOR SUCCESSFUL TWO-WAY TRADE ARRANGEMENT. BOTH OFFER RELATIVELY LARGE AND - SO PETROBRAS OFFICIALS ARGUE -- POTENTIALLY RECEPTIVE MARKETS FOR BRAZILIAN EXPORTS. WITH RESPECT TO THE BRAZILIAN-IRANIAN ARRANGEMENTS, A POLITICAL DECISION HAS BEEN TAKEN BY THE TWO GOVERNMENTS TO FOSTER CLOSER ECONOMIC TIES. EVEN SO, AN INCREASE IN BRAZILIAN EXPORTS FROM APPROXIMATELY US DOLS 75 MILLION IN 1976 TO DOLS 400 MILLION IN 1978 SEEMS AN AMBITIOUS TARGET, AND ITS ACHIEVEMENT IS LIKELY TO SLIP BY A LEAST A YEAR. BRAZIL'S EXPORTS TO MEXICO IN 1976 WERE APPROXIMATELY USDOLS 140 MILLION. THE CHANCES OF INCREASING BRAZILIAN EXPORTS IN CONJUNCTION WITH INCREASED SHIPMENTS OF OIL BY MEXICO WILL DEPEND ON MEXICAN DEMAND FOR
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BRAZILIAN IRON ORE AND THE EXTENT TO WHICH MEXICO WILL ACCEPT INCREASED BRAZILIAN EXPORTS OF MANUFACTURED GOODS. THE INVOLVEMENT OF THE MEXICAN AMBASSADOR SEEMS TO SUGGEST A POLITICAL INTEREST BY THE GOM IN INCREASED TIES.

9. WE THINK PROSPECTS FOR SUCCESSFUL TWO-WAY ARRANGEMENTS WITH OTHER OIL EXPORTING COUNTRIES ARE AT BEST MIXED, UNLESS THE PETROLEUM EXPORTING COUNTRY IS MOTIVATED BY POLITICAL OBJECTIVES. THERE IS LITTLE REASON FOR AN OIL EXPORTING COUNTRY TO COMMIT ITSELF TO A SPECIFIC IMPORT LEVEL, SINCE BRAZILIAN GOODS ARE AVAILABLE ON THE WORLD MARKET AND BRAZIL DOES NOT OFFER PRICE CONCESSIONS. DISTANCE, LACK OF REGULAR TRANSPORTATION, AND THE PROXIMITY OF COMPETITORS ARE OTHER CONTRIBUTING FACTORS. END COMMENT.
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